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This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IASB Meeting: February 2006, London

**Project: Short-term convergence: income taxes – cost benefit analysis
(Agenda Paper 2A)**

Introduction

1. The FASB staff is required to prepare a cost benefit analysis of proposals for the FASB to consider. The IASB staff thinks such an analysis would also be useful for the IASB.
2. In developing the analysis, the staff considered the costs to entities of getting any new information necessary to comply with the proposed amendments. The staff compared these costs with the benefits to preparers of having a more transparent standard to apply and benefits to users of financial statements of any new information given and/or form of presentation in the financial statements. The staff has not listed convergence as a benefit. This is not because the staff does not regard convergence as beneficial. For IFRS entities listed in the US, it is clearly a substantial benefit. However the staff thinks it would be useful for the Board to be able to justify the amendments using reasons that also apply to other constituents.

3. The staff also considered what transitional arrangements would be appropriate. They are discussed in Agenda Paper 2B.
4. Having considered the costs and benefits of the proposed amendments, the staff recommends one change. The staff recommends that the exception currently proposed relating to investments in foreign subsidiaries and joint ventures should be changed to an exception for subsidiaries and joint ventures in jurisdictions in which intragroup distributions have taxable consequences. Subject to that change, the staff recommends that the Board conclude that the benefits of the proposed amendments outweigh their costs.
5. Agenda Paper 2C sets out the Board's proposed changes to IAS 12 and any new information needed to comply. It also sets out the detailed staff analysis of the resulting costs and benefits and impact on the transitional arrangements for each change.

Cost benefit analysis

6. The staff notes that entities will need to generate new information to comply with the proposals that eliminate exceptions from the temporary difference approach, ie in relation to:
 - (a) temporary differences arising on the initial recognition of assets and liabilities outside a business combination that do not affect accounting or taxable profit at the time of initial recognition
 - (b) temporary difference arising on the initial recognition of goodwill
 - (c) temporary differences on domestic subsidiaries and joint ventures, and
 - (d) temporary differences on all associates.
7. [Not reproduced in Observer Notes.]
8. [Not reproduced in Observer Notes.]
9. [Not reproduced in Observer Notes.]
10. [Not reproduced in Observer Notes.]

11. [Not reproduced in Observer Notes.]
12. [Not reproduced in Observer Notes.]
13. [Not reproduced in Observer Notes.] Overall, the staff takes the view that the benefits of the proposals outweigh their costs.
14. [Not reproduced in Observer Notes.]